



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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July 10, 2012

TO: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **DEPARTMENT OF PARKS AND RECREATION REVENUE
AGREEMENT FINANCIAL AND COMPLIANCE AUDITS - FISCAL
YEARS 2005-06 THROUGH 2009-10**

At the request of the Department of Parks and Recreation (DPR or Department), we contracted with an independent Certified Public Accounting firm, Simpson and Simpson, CPAs, (Simpson) to conduct financial and compliance audits of the Department's nine revenue agreements covering five golf courses and four recreational facilities. The audits were intended to determine whether the contractors had properly reported their gross receipts, and paid the correct rent to the County. The County received a total of \$25.1 million from the nine contractors from Fiscal Years (FY) 2005-06 through 2009-10.

Review Summary

Simpson determined that seven of the nine contractors underpaid the County a total of \$27,943, including \$15,675 in interest on the underpaid rent; and that the remaining two contractors overpaid the County by a total of \$982.

Simpson also reported that three of the nine contractors had deficiencies in their internal controls over financial reporting which, if not corrected, could result in a misstatement of the contractor's financial statements. These weaknesses included:

- Inadequate separation of duties over recording and depositing of banquet sales
- Inadequate monitoring of daily sales reports
- Inadequate maintenance of supporting documents (e.g., cash register tapes)

Review of Reports

Simpson met with the contractors and DPR to discuss the results of each audit, and the contractors generally agreed with the findings.

Raging Waters Group Inc. and Hot Tubs, Inc. asked DPR to reassess the interest charged on their underpaid rent. Specifically:

- Raging Waters Group Inc. indicated that their reporting errors were due to timing differences between their fiscal schedule and when their rent payments to the County are due. As a result, they asked the County to change their rent due dates. DPR indicated that they are currently working with County Counsel to develop a response to the request.
- Hot Tubs, Inc. indicated its electrical usage calculations were not correct due to malfunctioning electrical meters, which have been replaced.

DPR considered these requests as allowed by the revenue agreements, and waived \$8,893 in interest for Raging Waters Group Inc., and \$1,185 for Hot Tubs, Inc. This reduced the total amount owed by the seven contractors to \$17,865 (\$27,943 - \$8,893 - \$1,185).

DPR indicated they have credited \$982 to the two contractors who overpaid the County, collected \$15,969 in underpayments, and are working to collect the remaining \$1,896.

DPR also informed us that they will request the affected contractors to submit corrective action plans to address the control weaknesses identified in the audits, and will closely monitor the contractors to ensure they report their gross receipts and pay their rent as required.

Attached is a summary of the agreements that were audited, and the amounts under/over paid to the County for each agreement. If you have any questions, or would like to review any of the individual reports, please call me or your staff may contact Robert Campbell at (213) 253-0101.

WLW:JLS:RGC:MP

Attachment

c: William T Fujioka, Chief Executive Officer
Russ Guiney, Director, Department of Parks and Recreation
Public Information Office
Audit Committee

**DEPARTMENT OF PARKS AND RECREATION REVENUE AGREEMENT FINANCIAL
AND COMPLIANCE AUDITS - FISCAL YEARS 2005-06 THROUGH 2009-10**

	Facility/Contractor	Agreement Type	Audit Period	Gross Revenue Paid to the County	Underpaid Rent and Interest	Overpaid Rent	
1	Raging Waters/Raging Waters Group Inc.	Concession	1/1/07 to 12/31/09	\$1,096,586	\$13,644		(1), (2)
2	Victoria Park Golf Course/VICO, LLC	Lease	9/1/07 to 06/30/10	2,866,698	5,501		(3)
3	Diamond Bar Golf Course/American Golf Corporation	Lease	1/1/06 to 12/31/09	5,132,948	3,065		(1),(4)
4	Bonelli Regional Park /Hot Tubs, Inc.	Concession	9/1/05 to 12/31/09	777,895	1,929		(5),(2)
5	Los Amigos Golf Course/Los Amigos Country Club, Inc.	Lease	1/1/06 to 12/31/09	2,612,615	1,896		(4),(6)
6	Santa Fe Dam/Renaissance Entertainment Productions, Inc.	Concession	4/1/08 to 12/31/09	80,000	1,600		(7)
7	Santa Anita Golf Course/Santa Anita Associates	Lease	1/1/06 to 12/31/09	5,426,415	308		(8)
8	Bonelli Recreational Vehicle Campground /Eastshore Recreational Vehicle Park	Lease	2/1/07 to 12/31/09	1,219,046		(\$433)	(9)
9	La Mirada Golf Course/California Golf-Tennis Inc.	Lease	1/1/06 to 12/31/09	5,893,904		(549)	(4),(9)
Sub-Total					\$27,943		
Interest Waived					(\$10,078)		(2)
TOTAL				<u>\$25,106,107</u>	<u>\$17,865</u>	<u>(\$982)</u>	

- (1) The Contractor underreported their gross receipts (e.g., green fees, corporate-sponsored events, merchandise, admission fees, etc.) which resulted in an underpayment to the County.
- (2) Raging Waters Group Inc. and Hot Tubs, Inc., requested that the County reassess the interest due on underpaid rent. As allowed by the agreements, DPR's Director waived \$8,893 in interest for Raging Waters and \$1,185 for Hot Tubs, Inc.
- (3) The underpayment was due to the Contractor not accurately reporting Golf Course Improvement Fees to the County between February and September 2008.
- (4) Simpson identified deficiencies in the contractor's internal controls over financial reporting.

- (5) The underpayments to the County resulted from several factors, including clerical errors in the Contractor's gross receipts records, underreporting gross receipts from gratuities, and the contractor using the wrong rate to calculate its monthly electricity usage.
- (6) The underpayment occurred because the contractor erroneously classified liquor sales as "Food and Beverage", and did not report parking lot gross receipts to the County during the audit period.
- (7) The contractor made late payments, and was assessed late payment fees totaling \$1,600 in accordance with the concession agreement.
- (8) From January 1, 2006, through December 31, 2009, the contractor did not report or remit mandatory service charges collected for banquet event sales, which resulted in underpayments to the County.
- (9) Overpayments were primarily from overreported gross revenue for Junior Golf Tournament Fees and Admission Fees.